

Message Text

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46/16

ACTION TRSE-00

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 IO-13 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 PA-01 PRS-01

/117 W

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P R 050831Z AUG 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8463

INFO AMEMBASSY BANGKOK

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMEMBASSY ISLAMABAD

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY TOKYO

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C O R R E C T E D C O P Y (EO, TAGS, SUBJ)

USADB

FOR NAC AGENCIES

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E.O. 11652: ADS, DECLAS 8/30/77

TAGS: EAID, EFIN

SUBJ: INCREASE IN ADB LENDING RATE

REF: STATE 188415

SUMMARY: ADB BOARD OF DIRECTORS VOTED DOWN MANAGEMENT PROPOSAL FOR INCREASE IN ORDINARY CAPITAL (OC) LENDING RATE FROM 8.75 PERCENT TO 9.15 PERCENT AND THEN VOTED TO APPROVE 9.10 PERCENT RATE. BOARD ALSO APPROVED PROPOSALS FOR INCREASE IN COMMITMENT CHARGE RULE. END SUMMARY.

1. AT AUGUST 5 MEETING OF ADB BOARD OF DIRECTORS, MANAGEMENT PROPOSAL TO RAISE OC LENDING RATE FROM 8.75 TO 9.15 PERCENT WAS VOTED DOWN, WITH 47 PERCENT VOTING AGAINST AND 40 PERCENT VOTING FOR PROPOSAL. THOSE NOT VOTING EITHER FOR OR AGAINST OPTED TO SUPPORT MAJORITY, WHICHEVER IT WOULD BE. SUBSEQUENTLY, ONLY U.S. AND GROUP REPRESENTED BY GERMAN ALTERNATE DIRECTOR VOTED AGAINST 9.10 PERCENT RATE.

2. COUNTRIES VOTING FOR ORIGINAL PROPOSAL WERE AUSTRALIA, AUSTRIA, GERMANY, JAPAN, UNITED KINGDOM AND UNITED STATES. THOSE OPPOSING WERE GROUPS REPRESENTED BY DIRECTORS FROM CANADA, FRANCE, INDONESIA, KOREA, LAOS, PHILIPPINES AND THAILAND. THOSE AGREEING TO SUPPORT MAJORITY WERE BANGLADESH, INDIA AND REST OF AUSTRALIAN GROUP.

3. THERE WAS NO OBJECTION TO INCREASE IN COMMITMENT CHARGE ON UNDISBURSED LOANS FROM .34 TO .45 PERCENT. MAJORITY SUPPORTED PROPOSAL FOR TEN BASIS POINT RULE, WITH DIRECTORS FROM CANADA, JAPAN AND UNITED STATES SUPPORTING FIVE BASIS POINTS.

4. IN SUPPORTING 9.15 PERCENT INTEREST RATE, U.S. DIRECTOR INDICATED THAT IF BANK ERRS ON HIGH SIDE, THEN EXTRA MONEY WOULD BENEFIT BANK (AND HENCE BORROWING COUNTRIES). IF THE BANK ERRS ON LOW SIDE, BANK WOULD END UP PAYING MORE MONEY ON ITS BORROWINGS FOR AN LIMITED OFFICIAL USE

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EXTENDED PERIOD WHICH WOULD ULTIMATELY PENALIZE ADB BORROWERS. U.S. DIRECTORS ALSO NOTED THAT BANK HAS JUST BEGUN TO EAT AWAY AT SPREAD BETWEEN WORLD BANK AND ADB COST OF BORROWING, AND IF THIS FAVORABLE TREND IS UPSET, ADB WILL END UP PAYING MORE FOR ITS BORROWINGS THAN IT WOULD OTHERWISE HAVE TO.

5. ADB PRESIDENT SAID HE WANTED TO DISASSOCIATE HIMSELF FROM BOARD DECISION ON LENDING RATE AND WANTED IT RECORDED IN OFFICIAL MINUTES OF MEETING. SULLIVAN

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To: STATE INFO BANGKOK
BERN
BONN
BRUSSELS
CANBERRA
THE HAGUE

ISLAMABAD
JAKARTA
LONDON
NEW DELHI
OTTAWA
PARIS
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SEOUL
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